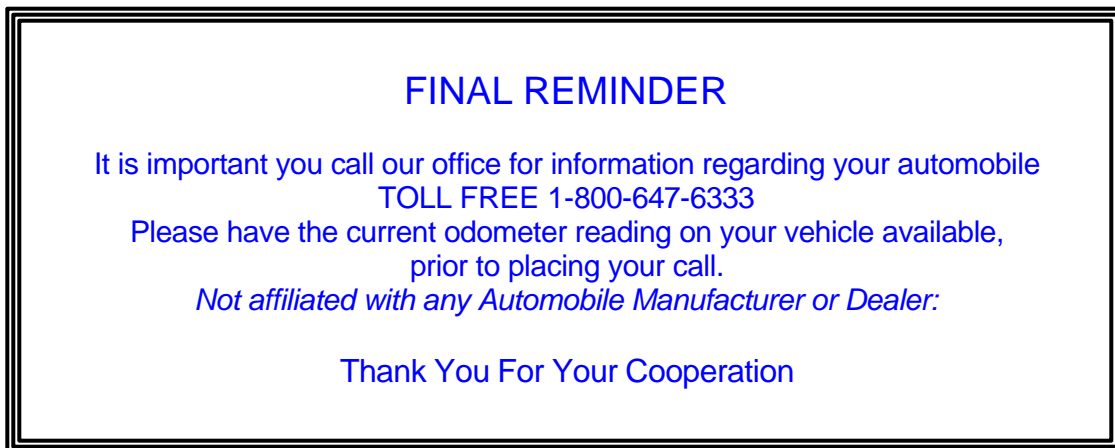

TOO GOOD TO BE TRUE....

A Column on Consumer Issues
by Attorney General Wayne Stenehjem's
Consumer Protection and Antitrust Division

May 26, 2004

AUTO SERVICE CONTRACTS

Are you one of the thousands of people who have received a postcard in the mail stating?



Many consumers who have received this notification have been alarmed that they had done something wrong or neglected to submit important documents about their vehicle. In fact, it is a solicitation to purchase a warranty for your vehicle.

If you are shopping for a new or used car, you may be encouraged to buy an auto service contract to protect against unexpected, costly repairs. Before signing on the dotted line, be sure you understand the terms of the contract and who is responsible for providing the coverage.

According to the Federal Trade Commission (FTC), an auto service contract is promise to perform (or pay for) certain repairs or services. Sometimes called an "extended warranty," a service contract is not a warranty by federal law. A service contract may be arranged at any time and always costs extra; a warranty comes with a new car and is included in the original price. This separate and additional cost distinguishes a service contract from a warranty.

Before deciding whether to buy an auto service contract, ask these questions:

- **Does the service contract duplicate any warranty coverage?** Compare service contracts with the manufacturer's warranty before you buy.

- **Who backs the service contract?** Ask who performs or pays for repairs under the terms of the service contract. It may be the manufacturer, the dealer, or an independent company. Many service contracts sold by dealers are handled by independent companies called administrators. Administrators act as claims adjusters, authorizing claims to any dealers under the contract. If claims are denied the dealer who sold the contract may not be responsible for the repairs.
- **What is the cost of the auto service contract?** Usually, the price of the service contract is based on the car make, model condition (new or used), coverage, and length of the contract. The cost of the service contract can range from several hundred dollars to several thousand. In addition, you may need to pay a deductible each time your car is services or repaired.
- **What is covered and not covered?** Few auto service contracts cover all repairs. Watch out for absolute exclusions that deny coverage for any reasons. For instance, if the contract specifies that only “mechanical breakdowns” will be covered, problems caused by “normal wear and tear” may be excluded.
- **How are claims handled?** When your car needs to be repaired or services, you may be able to choose among several service dealers or authorized repair centers. Others require the card owner to return the vehicle to the selling dealer for service. Find out if your car will be covered if it breaks down while you are using it on a trip or if you take it when you move out of town. Find out if you need prior authorization from the contract provider for any repair work or towing services. Ask how long it will take to obtain authorization and whether you can get authorization outside of normal business hours.
- **What are your responsibilities?** Under the contract, you may have to follow all the manufacturer’s recommendations for routine maintenance, such as oil and spark plug changes. Failure to do so could void the contract. To prove you have maintained the car properly, keep detailed records, including receipts. Find out if the contract prohibits you from taking the car to an independent station for routine maintenance or performing the work yourself. The contract may specify that the selling dealer is the only authorized facility for servicing the car.
- **What is the length of the service contract?** If the service contract lasts longer than you expect to own the car, find out if it can be transferred when you sell the car, whether there’s a fee, or if a shorter contract is available.

If you are told that you must purchase an auto service contract to qualify for financing, contract the lender yourself to find out if this is true. If you decide to buy a service contract through a car dealership – and the contract is backed by an administrator and/or a third party – make sure the dealership promptly forwards your payment and gives you written confirmation. Some consumers have discovered too late that the dealer failed to forward their payment, leaving them without coverage months after they signed the contract.

The Attorney General’s Consumer Protection Division investigates allegations of fraud in the marketplace. Investigators also mediate individual complaints against businesses. If you have a consumer problem or question, call the Consumer Protection Division at 328-3404, toll-free at 1-800-472-2600, or 1-800-366-6888 (w/TTY). This article and other consumer information is located on our website at www.ag.state.nd.us.

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